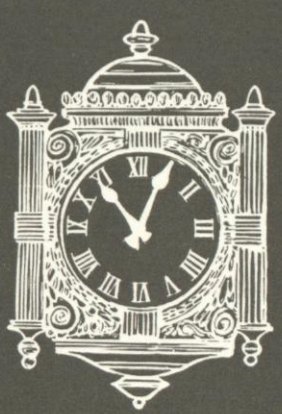

ANNUAL REPORT OF

MARSHALL FIELD & COMPANY

YEAR ENDED JANUARY 31, 1967

MARSHALL FIELD & COMPANY

founded in 1852
an Illinois corporation
incorporated in 1901

executive offices:

111 NORTH STATE STREET, CHICAGO, ILLINOIS 60690

1966

ANNUAL REPORT TO SHAREHOLDERS

General Counsel
WILSON & McILVAINE
Chicago

Public Accountants
ARTHUR ANDERSEN & CO.
Chicago

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
Chicago

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
New York

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
Chicago

BANKERS TRUST COMPANY
New York

THE STORY IN BRIEF

(in thousands of dollars)

	Fiscal Year				
	1966	1965	1964	1963	1962
Net Sales	$325,369	$306,034	$280,105	$256,615	$242,399
Income before Federal Taxes	29,930	28,246	24,497	19,040	18,490
Federal Taxes on Income	14,178	13,416	12,056	9,672	9,329
Net Income	15,752	14,830	12,441	9,368(1)	9,161
Net Income per Share	3.88	3.66	3.09	2.33(1)	2.26
Dividends Paid per Share	2.00	1.80	1.60	1.45	1.40
Cash and Securities	16,375	21,981	34,655(2)	22,973	24,437
Accounts Receivable	45,895	42,511	25,621(2)	34,387	30,086
Merchandise Inventories	51,934	46,270	42,518	37,852	34,878
Working Capital	75,111	72,263	69,909	64,782	61,386
Ratio of Current Assets to Current Liabilities	2.9	2.8	3.0	3.1	3.1
Capital Expenditures—					
Modernization and Replacement	2,682	3,027	3,177	2,100	2,187
Expansion	7,253	6,274	1,759	4,377	4,137
Depreciation	4,924	4,954	4,760	4,518	4,325
Shareholders' Equity	132,200	124,486	116,785	110,773	104,959
Book Value per Share	32.55	30.68	28.91	27.49	26.13

Notes: (1) Excludes net gain on land sale of $2,250,000 equivalent to 56 cents per share.

(2) At the end of the fiscal year 1964 cash and securities were increased and accounts receivable were decreased approximately $12,500,000 as the result of the sale of all installment receivables pursuant to adoption in 1965 of the installment method of tax accounting.

MARSHALL FIELD & COMPANY

The Board of Directors submits to the Shareholders this annual report for the fiscal year ended January 31, 1967.

Sales and earnings of your Company reached record levels in 1966. However, the increases achieved were more modest than the advances of the prior two years.

Net Sales of $325,369,000 for fiscal 1966 were 6.3 per cent greater than the $306,034,000 of 1965. In each of the two prior years the Company's sales volume had increased approximately 9 per cent.

Net Income in 1966 was $15,752,000 compared with $14,830,000 a year earlier, a gain of 6.2 per cent. The Company's earnings rose 19 per cent in 1965 and 33 per cent in 1964. The investment credit provided by Federal income tax laws added $88,000 to 1966 net income and $70,000 the preceding year. The Company follows the policy of amortizing the investment credit over the depreciable life of the equipment involved.

Income Before Federal Taxes was equal to 9.2 per cent of sales, the same as in 1965.

Net Income per Common Share amounted to $3.88 compared with $3.66 in 1965.

Dividends of $2.00 per share were paid in 1966 compared to $1.80 in 1965.

Cash and Securities totaled $16,375,000 on January 31, 1967 and $21,981,000 a year earlier. Accounts receivable at the year-end were $45,895,000 compared with $42,511,000 on January 31, 1966. The Company's investment in merchandise inventories increased from $46,270,000 to $51,934,000.

Working Capital at the 1966 fiscal year-end amounted to $75,111,000 and $72,263,000 at the prior year-end. The ratio of current assets to current liabilities was 2.9 to 1 and 2.8 to 1 at the respective year-ends.

Funded Debt, which amounted to $23,000,000 at January 31, 1967, was unchanged during the year. Payments are not required under the long-term loan until 1972, but the Company has made prepayments totaling $7,000,000 during the years 1959 to 1965 inclusive.

Minimum Annual Rent Obligations under long-term leases amount to approximately $970,000.

Retirement Program payments toward the 1966 costs amounted to $2,129,000 compared with $1,730,000 in 1965. On January 31, 1967 the market value of the Pension Trust assets was $53,130,000. Since the Trust was established in 1943, a total of $19,435,000 has been paid to 5,816 retired employes.

Capital Expenditures during the year were $9,935,000 compared with $9,301,000 in 1965. The 1966 expenditure for expansion projects amounted to $7,253,000 while $2,682,000 was spent for the modernization and replace-

ment of existing properties and equipment. Capital expenditures for the coming year are estimated to be about $8,000,000, with approximately $5,000,000 of that amount for expansion projects.

Improvement and Modernization work on the Company's existing properties continued throughout the year. Improvements were made in the Evanston, Oak Park and Lake Forest stores. Our program of converting to automatic operation all Chicago suburban store passenger elevators will be completed early this year. A similar conversion program in the main Chicago store is now more than 50 per cent finished. Another bank of automatic elevators will be installed this year, and present plans will bring the program to completion by 1969. We continue to renovate sales and operating areas in the main Chicago store, modernize the entrances and develop plans to enhance further this largest Marshall Field & Company facility, a world-famous showcase.

New Facilities of a significant nature were added to Marshall Field & Company last year. A new regional shopping center store of 264,000 square feet was opened in October at River Oaks in the southeastern suburban area of the Chicago market. This fine facility compares in design and shopping atmosphere to our Old Orchard, Oakbrook and Park Forest stores to the north, west and south. These units now bring the opportunity to shop at Field's within easy driving distance of all of our customers throughout the expanding Chicago suburban area. To keep pace with this suburban growth, our Old Orchard store was expanded again through the addition of a third floor of 75,000 square feet. In size and sales volume this 445,000-square-foot store now ranks with major downtown stores in many cities. All preopening expenses of these two new projects were charged to 1966 earnings.

Construction has begun on Southcenter, the previously-announced shopping center unit for our Frederick & Nelson Division in Seattle. To be completed in the fall of 1968, the center will be the Seattle area's largest and will feature an enclosed mall. This Frederick & Nelson store containing 175,000 square feet will be that Division's third and largest outlying unit. Our downtown Seattle store, in its appearance and emphasis on quality of merchandise and service, continues to be the major shopping attraction in the Pacific Northwest.

Substantial progress was made during the year on the development of our recently acquired 1,500,000-square-foot warehousing facility in Chicago. This property is being adapted to meet our needs for a Service Center, and we are now beginning to use it for our operations. When this conversion and consolidation is completed, the increased costs of dual operations we are now incurring will end, and we will begin to benefit from more efficient and up-to-date facilities. We will be able to dispose of six other warehouses. Contracts of sale have been signed for three of these properties, including the two largest.

Sales Performance in all of our stores was good last year, although the rate of increase moderated in the later months. A growing uncertainty in the prospects of the nation's economy coupled with evidence of a slowing of business activity resulted in some consumer hesitancy and caution. Operating results in our Frederick & Nelson Division were excellent throughout the year, however, reflecting the strong business conditions in Seattle. The Mayfair store in suburban Milwaukee continues to enjoy good growth, and it is particularly

pleasing to report a fine reception of our new River Oaks store where sales exceeded our expectations.

January results were severely affected by Chicago's worst snowstorm in history. The sales loss was substantial, and earnings were also diminished by this major interruption of business. Our Chicago stores had to be closed early on one day, did not open the next and were handicapped for some time thereafter. During this emergency our staff performed admirably under most difficult circumstances.

Assessing the Outlook for your Company in 1967 is more than ordinarily difficult. Although the general economy is currently operating at a high level historically, the variety and complexity of problems now facing it have caused, at least for the moment, a slowing of the upward trend of recent years. Certainly the probability of a more restrictive business atmosphere, together with the problems of rising costs, increased taxes and other pressures on profits, must be considered in forecasting near-term prospects. But risk, challenge and change often confront business, and your Company has both the organization and the financial capabilities to meet whatever may lie ahead. Assuming no further decline in the growth rate of consumer expenditures and with the expectation that some of our national and foreign uncertainties will be resolved, we expect another good year for your Company in 1967.

At the Annual Meeting of Shareholders, Mr. Howard M. Packard was elected a member of our Board of Directors. Mr. Packard is Chairman of S. C. Johnson & Son, Inc. (Johnson's Wax).

Administrative Changes included the appointment of Mr. Charles Dunlop as Assistant Comptroller of the Company. Changes in divisional officers were the appointment of Mr. Charles M. Rhodes, former Assistant Treasurer, as Vice President, Real Estate Division, and, in our Frederick & Nelson Division, Mr. Roy S. Leighton, Personnel, and Mr. W. Andrew Ross, Divisional Comptroller, were named Vice Presidents.

In recent months changes in the Chicago Stores Division resulted from the decisions by Mr. William C. Stetson and Mr. Joseph N. Field to take early retirement. Each served the Company with distinction for more than thirty years. Mr. Stetson, a Vice President, directed our fashion merchandising. He was succeeded October 1 by his two experienced assistants, Mr. Edmund J. Doering and Mr. Arthur E. Osborne, Jr., who were appointed Vice Presidents, Merchandising, to manage major areas of our important and growing apparel business. Mr. Field, a Vice President, will be succeeded April 1 as Manager of our Old Orchard store by Mr. Arthur D. Bradbury.

Finally, in reporting the results of the past year, we must acknowledge gratefully the loyal support of our customers, the fine cooperation of our suppliers in this country and throughout the world, the exceptional efforts of our associates in this business and the continuing interest of our many shareholders.

By Order of the Board of Directors,

G. A. Sivage

March 15, 1967

President

MARSHALL FIELD & COMPANY

INCOME STATEMENT

	Fiscal Year Ended	
	January 31, 1967	January 31, 1966
NET SALES	$325,369,239	$306,034,046
DEDUCT:		
Cost of goods sold and expenses, exclusive of items listed below	$278,442,070	$261,940,574
Maintenance and repairs	3,037,757	2,835,170
Depreciation and amortization	4,923,917	4,953,810
Taxes other than Federal income taxes	7,426,689	6,548,214
Rentals paid	1,192,467	1,083,648
Net interest expense	416,046	426,601
Federal income taxes	14,178,000	13,416,000
	$309,616,946	$291,204,017
NET INCOME FOR THE YEAR	$ 15,752,293	$ 14,830,029

Note: For the fiscal years ended January 31, 1967 and 1966, the cost of goods sold, buying and occupancy expenses were $228,602,088 and $215,485,017, respectively, and selling, general and administrative expenses were $66,420,812 and $61,876,399, respectively.

EARNED SURPLUS

BALANCE AT JANUARY 31, 1966	$ 95,317,585
Net income for the year	15,752,293
	$111,069,878
Cash dividends declared on Common Shares—$2.00 per share	8,122,202
BALANCE AT JANUARY 31, 1967	$102,947,676

SOURCE AND DISPOSITION OF FUNDS

	Fiscal Year Ended	
	January 31, 1967	January 31, 1966
SOURCE OF FUNDS:		
Net income for the year	$15,752,293	$14,830,029
Depreciation and amortization	4,923,917	4,953,810
	$20,676,210	$19,783,839
Sales of Common Shares under options	83,995	375,424
Miscellaneous	145,331	—
	$20,905,536	$20,159,263
DISPOSITION OF FUNDS:		
Additions to property and equipment	$ 9,934,803	$ 9,300,640
Dividends to shareholders	8,122,202	7,505,196
Payments on long-term debt	—	1,000,000
	$18,057,005	$17,805,836
INCREASE IN WORKING CAPITAL	$ 2,848,531	$ 2,353,427

MARSHALL FIELD & COMPANY BALANCE SHEET

	January 31, 1967	January 31, 1966
ASSETS		
CURRENT ASSETS:		
Cash	$ 7,459,321	$ 9,230,430
Short-term investments, at cost	8,915,642	12,750,806
Receivables from customers and others, less allowance for doubtful accounts of $951,000 at the end of each year	45,895,130	42,510,901
Merchandise inventories, priced at the lower of cost or market	51,933,615	46,270,243
Prepaid insurance, supply inventories, etc.	1,177,560	1,220,682
Total Current Assets	$115,381,268	$111,983,062
PROPERTY AND EQUIPMENT:		
Land, at cost	$ 19,210,383	$ 18,898,228
Buildings, leaseholds and equipment, at cost	114,228,495	106,458,353
	$133,438,878	$125,356,581
Less—Accumulated depreciation and amortization	53,350,298	50,133,556
Net Property and Equipment	$ 80,088,580	$ 75,223,025
GOODWILL, TRADEMARKS, ETC.	$ 1	$ 1
	$195,469,849	$187,206,088

	January 31, 1967	January 31, 1966
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 11,203,099	$ 10,936,540
Accrued Federal income taxes	10,910,261	10,965,539
Other accrued liabilities	18,156,788	17,818,394
Total Current Liabilities	$ 40,270,148	$ 39,720,473
3¾% NOTES, maturing from 1972 to 1982	$ 23,000,000	$ 23,000,000
SHAREHOLDERS' EQUITY:		
Cumulative Preferred Shares—		
Authorized 150,000 shares of $100 par value, issuable in series; no shares issued.		
Common Shares—		
Authorized 8,000,000 shares of no par value. At January 31, 1966, options for 49,810 shares were outstanding and 103,740 shares were available for granting of options. During the year options were exercised for 3,950 shares, cancelled for 240 shares, and none were granted. At January 31, 1967, options for 45,620 shares were outstanding at $14.50 to $51.25 per share, of which 32,900 shares were exercisable currently; 103,980 shares were available for granting of options.		
Issued and outstanding 4,061,326 shares at January 31, 1967, at stated value	$ 20,304,431	$ 20,220,436
Paid-in Surplus	8,947,594	8,947,594
Earned Surplus ($63,173,707 available for dividends on Common Shares under terms of 3¾% Notes)	102,947,676	95,317,585
Total Shareholders' Equity	$132,199,701	$124,485,615
	$195,469,849	$187,206,088

ARTHUR ANDERSEN & CO.

69 WEST WASHINGTON STREET
CHICAGO 60602

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of January 31, 1967, and the related statements of income, earned surplus and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of income, earned surplus and source and disposition of funds present fairly the financial position of Marshall Field & Company as of January 31, 1967, and the results of its operations and the source and disposition of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
March 3, 1967

BOARD OF DIRECTORS

EDWARD McC. BLAIR
JOHN M. BUDD
KENT CHANDLER
DAVID W. DAVIDSON
HENRY P. ISHAM
WILLIAM V. KAHLER
HUGHSTON M. McBAIN
JOHN McKINLAY
HOWARD M. PACKARD
JAMES L. PALMER
GERALD A. SIVAGE

CORPORATE OFFICERS

GERALD A. SIVAGE	*President*
DAVID W. DAVIDSON	*Executive Vice President*
HARRY D. PERKINS	*Senior Vice President*
CORNELIUS J. BYRNE	*Vice President*
RALPH E. BOWERS	*Vice President and Secretary*
EARLE HARRISON	*Vice President and Treasurer*
GEORGE G. RINDER	*Vice President and Comptroller*
CHARLES DUNLOP	*Assistant Comptroller*
ROBERT A. WILBRANDT	*Assistant Secretary*

DIVISION OFFICERS

Chicago Stores Division

VERLE L. BARBER	*Vice President, Merchandising*
EINAR L. BJORKLUND	*Vice President, Merchandising*
JOSEPH A. BURNHAM	*Vice President, Operating*
EDMUND J. DOERING	*Vice President, Merchandising*
WILLIAM L. ENGLISH	*Vice President, Divisional Comptroller*
CHARLES W. FOLDS	*Vice President, Merchandising*
CLARENCE T. GREGG	*Vice President, Merchandising*
CARL D. GULDAGER	*Vice President, Advertising and Public Relations*
CHARLES C. HOLLOWAY	*Vice President, Merchandising*
DONALD K. KEITH	*Vice President, Merchandising*
JOHN T. MOSS	*Vice President, Design*
ARTHUR E. OSBORNE, JR.	*Vice President, Merchandising*
LLOYD H. RICHMOND	*Vice President, Personnel*
PAUL H. STROHM	*Vice President, Merchandising*

Frederick & Nelson Division

ROY S. LEIGHTON	*Vice President, Personnel*
W. ANDREW ROSS	*Vice President, Divisional Comptroller*
M. L. STORHOW	*Vice President, Operating*
JASPER UTZ	*Vice President, Merchandising*

Mayfair Division

ARNOLD D. K. MASON	*Vice President, Merchandising*

Real Estate Division

CHARLES M. RHODES	*Vice President, Real Estate*

STORE LOCATIONS

In the Chicago Area

Marshall Field & Company
111 North State Street, Chicago

Evanston
1700 Sherman Avenue, Evanston

Lake Forest
682 North Bank Lane, Lake Forest

Oakbrook
One Oakbrook Center Mall, Oak Brook

Oak Park
1144 Lake Street, Oak Park

Old Orchard
One Old Orchard, Skokie

Park Forest
333 Plaza, Park Forest

River Oaks
159th Street and Torrence Avenue

In the Milwaukee Area

Mayfair
One Mayfair Mall North
Wauwatosa, Wisconsin

In the Seattle Area

Frederick & Nelson
5th and Pine Streets, Seattle

Aurora Village
20218 Aurora Village Square North
Seattle

Bellevue Square
Bellevue, Washington

Southcenter (under construction)
Tukwila, Washington

COMMERCIAL FURNISHINGS

Contract Sales Division

201 Merchandise Mart
Chicago